Understanding Your Escrow Account

Mortgage Banking

Your questions—answered!

These are some of the more commonly asked questions, but if you have any others, we're here for you 24/7 at 800-860-8821.

1. Why did my monthly mortgage payment change?

While the principal and interest payment will stay the same on mortgages with fixed rates, escrow payments change for a number of reasons and can therefore impact your monthly mortgage payment amount. For example, your insurance or tax bills might increase or decrease without the bank having advance notice of the change. In this event, you could end up with a shortage, deficiency, or surplus (See FAQs 5 & 6 for more on a shortage, deficiency or surplus) which may cause the bank to adjust your escrow payment. Reasons for such a change include, but are not limited to:

- **Initial Escrow Calculation:** Not all information was available at loan closing, so the first escrow calculation made may have been more or less than what was needed.
- **New Construction:** The first tax bill on a property is usually only for the lot/land. If there has been new construction on your land within the tax year, the bank may have received a bill for the value after a full assessment, including the house and the land.
- **Insurance:** Your insurance company may have increased your rates, or the bank may have purchased forced placed insurance on your behalf. You are encouraged to contact the insurance company for further information in these cases, as the bank is not usually provided any details.
- **Taxes:** Your property may have been reassessed, or your county's tax rates may have changed, resulting in an increase in your annual property taxes. Contact your town office for additional information.

2. What is an escrow account?

Many mortgage lenders hold borrower ("your") funds in a dedicated account (the "escrow account") that the lender or servicer ("the bank") controls on your behalf to pay taxes, insurance premiums or other charges with respect to a mortgage loan. Please note that not all loans require an escrow account.

3. What is an escrow account analysis?

"Escrow account analysis" is the review the bank conducts in the form of a trial running balance for an escrow account to:

1. Determine the appropriate target balances;
2. Compute your monthly payments for the next escrow account computation year and any deposits needed to establish or maintain the account; and
3. Determine whether shortages, surpluses, or deficiencies exist.

A summary statement of this report is provided to you and includes a review of activity in your escrow account during the past 12 months, with projections for the next 12 months.

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4. How is my escrow payment calculated as part of my mortgage payment?

The bank will determine your escrow account payment amount by conducting an annual "escrow account analysis" at least every twelve (12) months after your loan closes. By conducting this analysis, the bank determines an escrow account target balance based on what it knows at the time to be a "sufficient amount" to meet your escrow payment needs for the next twelve (12) months. A "sufficient amount" is one where the escrow account balance will not be less than $0 after the next payment, and may include a "cushion" as permitted by law to prepare for any unanticipated costs or increases in taxes, insurance, or other charges.

5. What happens if my escrow account has a shortage or deficiency?

If your account has a shortage or a deficiency, the bank may require you to pay additional deposits to make up for the shortage or eliminate the deficiency.

If the **shortage** is greater than or equal to one month's escrow account payment, the bank may allow the shortage to exist and do nothing to change it or may require you to repay the shortage in equal monthly payments over at least 12 months.

If the **deficiency** is greater than or equal to one month's escrow account payment, the bank may allow the deficiency and do nothing to change it or may require you to repay the deficiency in two or more equal monthly payments.

If the bank elects to have you pay back the shortage or deficiency, this will increase your monthly escrow account payment.

Key Terms

A "**shortage**" means an amount by which a current escrow account falls short of the target balance when the escrow analysis is run.

A "**deficiency**" is the amount of a negative balance in an escrow account. If the bank identifies a deficiency, it must conduct an escrow account analysis before asking you to repay it.

6. What happens if there is a surplus in my escrow?

An escrow account "surplus" occurs when the amount in the escrow account exceeds the target balance for the account. If your mortgage is current, any surplus less than $50 is retained in the account and is used to reduce the escrow portion over the next 12 (or fewer) months. If this surplus is more than $50, the bank will mail you a check for the surplus amount. The check will be mailed one week following the escrow account analysis that identified the surplus, so you do not need to request a refund yourself.

Thanks for being our customer!

For you 24/7:

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